



THE CITY OF SAN DIEGO **MANAGER'S REPORT**

DATE ISSUED: April 26, 2005 REPORT NO. RA-05-10
CMR-05-094

ATTENTION: Chair and Members of the Redevelopment Agency
Mayor and City Council
Docket of May 3, 2005

SUBJECT: Disposition and Development Agreement and Associated Actions
for the City Heights Square Office and Retail Project

REFERENCE: Executive Director's Report No. RA-04-26

SUMMARY

Issues – Should the City Council and Redevelopment Agency authorize the Executive Director to execute the Disposition and Development Agreement with San Diego Revitalization Corporation, authorize the Executive Director to make contingent offers for purchase of property and approve related actions for development of the City Heights Square Office and Retail Project?

Manager/Executive Director's Recommendation –

For the Agency:

- 1) Certify that the Mitigated Negative Declaration (JO No. 42-2983) has been completed in compliance with the California Environmental Quality Act (CEQA) and State CEQA Guidelines and state for the record that they have been reviewed and considered prior to approving the actions.
- 2) Approve the Basic Concept Drawings.
- 3) Amend the Redevelopment Agency budget for the City Heights Project Area and authorize the Executive Director or designee to accept and expend funds for the City Heights Square Office and Retail Project as follows: \$3,500,000 advance from San Diego Revitalization Corporation for Agency acquisition, relocation, demolition and site remediation costs.

- 4) Authorize the Executive Director or designee to execute a Disposition and Development Agreement with San Diego Revitalization Corporation for the City Heights Square Office and Retail project.
- 5) Authorize the Executive Director or designee to execute a Purchase and Sale Agreement with San Diego Revitalization Corporation for acquisition of a park site on 43rd Street.
- 6) Authorize the Executive Director or designee to make contingent offers for acquisition of properties for the City Heights Square Office and Retail Project.

For the Council:

- 1) Certify that the Mitigated Negative Declaration (JO No.42-2983) has been prepared in compliance with CEQA and State CEQA Guidelines and state for the record that the MND has been reviewed and considered prior to approving any of the actions.
- 2) Consent to the Redevelopment Agency entering into the Disposition and Development Agreement for the City Heights Square Office and Retail project.

Other Recommendations – The City Heights Project Area Committee (PAC) voted on May 10, 2004 to recommend approval of the Exclusive Negotiating Agreement for the City Heights Square Project, which included the office/retail development, senior affordable housing development and community clinic/office/retail development. On April 11, 2005 the PAC reviewed the proposed DDA and related actions, but did not take action. They have scheduled a special meeting on April 27, 2005 to further review the actions and their vote will be reported at the joint Agency/Council DDA hearing. On February 7, 2005, the City Heights Area Planning Committee (CHAPC) voted to recommend approval of the planned development permit and associated entitlements for the project. The CHAPC is scheduled to review the proposed DDA for this project on May 2, 2005, and their recommendation will be reported at the Agency/Council hearing.

Fiscal Impact – The estimated total budget for the office and retail development is approximately \$32,265,000 (see Attachment 7). San Diego Revitalization Corporation (SDRC) has acquired the majority of the project site and is proposing to develop the project and privately finance the majority of the project cost. It is proposed that the Agency assist the project by acquiring two parcels located at the corner of University Avenue and Fairmount Avenue, which is currently occupied by a Jack-in-the-Box restaurant, relocate the Jack-in-the-Box, demolish the existing building, remediate soil contamination and sell the cleared property to SDRC for \$850,000, which has been determined as a fair market price for the cleared site. The Agency would not sell the corner property to SDRC unless and until they meet all of the required conditions of the DDA and are prepared to proceed with construction of the project.

Based on current appraisals, Phase I and Phase II site studies and demolition estimates, the anticipated cost for the Agency to carry out the acquisition and site preparation steps would be approximately \$3 million. Thus the net Agency subsidy to the project is estimated at \$2.15 million. The DDA includes provisions for developer advances and a Loan Agreement, whereby SDRC would advance to the Agency needed funds, up to \$3.5 million, for the anticipated costs. Of this total \$850,000 would be considered SDRC's payment for the land and the remainder of the total cost, up to a maximum of \$2.65 million would be a loan. The loan would be amortized over twenty years with \$337,000 estimated as annual debt service payments (see Attachment 5). The Agency could pay off the loan sooner with no penalty. Original annual interest on the loan will be 8%, but if the loan is paid off no later than five years following loan disbursement, the annual interest rate would revert to 6%, including a credit for previous payments at the 8% rate. Interest will not begin accruing until project construction begins. The funding source for the Agency debt service would be City Heights discretionary tax increment funds and/or proceeds from a tax allocation bond. It is anticipated that the City Heights Redevelopment Project Area could issue a tax allocation bond of sufficient size to pay off the loan within two years.

A further analysis of the project financing and a justification of the Agency's contribution to the project are provided in the Re-Use Appraisal and 33433 Report (Attachments 5 and 6), which were prepared by Keyser Marston Associates.

BACKGROUND

The proposed project site is the former location of an Albertson's grocery store. When the City Heights Urban Village Retail Center was completed in 2001 a new expanded Albertson's grocery store opened in the new center and the old store was closed on the current project site. San Diego Revitalization Corporation acquired the property, cleared the site and began master planning the grocery property as well as the majority of the remainder of the block bounded by University Avenue, Fairmount Avenue, Polk Avenue and 43rd Street. SDRC established a working partnership with Chelsea Investment Corporation and Senior Community Centers for the planning and development of a senior housing project and also established a working partnership with La Maestra Family Clinic for the planning and development of a new community clinic/office/retail building. Together the four organizations have collaborated to develop a master plan for most of the block, which is shown in the site plan and concept drawings provided as Attachment 1. The entire master plan area is currently being processed by the City for entitlements as a single Planned Development Permit project.

The Agency has assisted this master planning effort and is currently proposing the approval of a DDA with San Diego Revitalization Corporation for development of an office and retail building and a separate DDA with the partnership of Chelsea Investment Corporation and Senior Community Centers for the development of an affordable senior housing project. The proposed new La Maestra Clinic/Office/Retail development is expected to proceed without direct Agency assistance.

DISCUSSION

The master plan area totals 2.7 acres and the proposed office/retail project would sit on approximately 1.4 acres. It would include a four story 90,000 square foot building, fronting on University Avenue, with retail and commercial uses primarily occupying the first floor and offices occupying the upper three floors. A total of 267 surface and underground parking spaces would serve the office /retail building. Distinctive design features of the project include small scale retail shops fronting on University Avenue, a decorative tower feature on top of the building at the corner of University and Fairmount Avenues and a vine covered decorative trellis structure fronting 43rd Street. The project is fully accessible and incorporates ADA Universal Design features.

This project, along with its accompanying developments in the master planned block, are considered a complementary phase of the City Heights Urban Village. The significant scale and active mixed uses of the new development would further solidify the Urban Village area as the commercial and civic center of the City Heights community.

Included in the City Heights master plan development is a 5,348 square foot proposed pocket park to be located between the office/retail building and the senior housing development on 43rd Street. The land is currently owned by SDRC and it is proposed to be acquired by the Agency for conveyance to the City. The acquisition costs are proposed to be shared proportionately by the Agency, the senior housing project and La Maestra.. A separate Purchase and Sale Agreement is proposed to establish the terms and provisions for that sale, and the acquisition price to the Agency is set at \$170,750. Detailed design for the park has not yet been undertaken and is expected to take place in collaboration with the local Recreation Council, City Heights Area Planning Committee and City Heights Redevelopment PAC. The park improvements are proposed to be installed following completion of construction of the underground parking for the adjacent three projects. This sequencing is necessary because the improvements would likely be destroyed by adjacent construction activity if they were installed prior to the underground shoring and construction for the projects immediately adjacent to the park site.

Project Implementation

The City Heights Square project is expected to be developed in phases, with all four separate components – office/retail project, senior housing project, clinic/office/retail project and pocket park – being developed separately. SDRC, Chelsea Investment Corporation, Senior Community Centers and La Maestra Community Clinic have entered into a partnership agreement whereby they share proportionately in design, planning and engineering expenses. They are also entering into separate agreements for the disposition of land between SDRC and the other parties. The Agency has reviewed these agreements and has confirmed that they are in conformance with the proposed DDA's for both the office/retail project and the senior housing project. Keyser Marston Associates has

determined that the property sale prices are within the range of fair market prices and that the other development costs are verified, legitimate costs and estimates.

ALTERNATIVE

Do not approve the DDA, purchase and sale agreement, and related actions. This alternative would not allow the office/retail project or the proposed pocket park to proceed.

Respectfully submitted,

Debra Fischle-Faulk
Deputy Executive Director

Approved: Hank Cunningham
Assistant Executive Director

Approved: Patricia Frazier
Deputy City Manager

CUNNINGHAM/JJL

Note: The attachments are not available in electronic format. A complete copy for review is available in the Office of the City Clerk.

Attachments: 1. Site Plan and Concept Plan
2. Mitigated Negative Declaration
3. Disposition and Development Agreement
4. Purchase and Sale Agreement
5. Agency 33433 Report prepared by Keyser Marston Associates
6. Re-Use Appraisal Report prepared by Keyser Marston Associates
7. Project Budget